February 14, 2016

Dear Member of Congress:

I write in opposition to changing the tax code to limit or remove the ability of businesses to deduct advertising costs as a necessary business expense from taxable income.

2017 marks a once-in-a-generation opportunity to pass comprehensive, pro-growth tax reform. As lawmakers move forward with tax reform, they must retain the ability of businesses to deduct advertising costs. Eliminating or removing this deduction would distort business decisions and undermines the goals of growth, simplicity, and equity that drive tax reform.

Treating Advertising Costs Differently From Other Business Decisions Would Distort the Tax Code: Advertising is one of many costs of doing business that firms are properly allowed to deduct, and has been treated as such in the tax code for more than 100 years. Other costs to businesses include wages and other forms of compensation, travel, and rent.

There is little difference between advertising costs and these other business expenses. Changing current law would needlessly create a bias against investing in advertising. In turn, this would encourage businesses to make economically inefficient decisions based on tax reasons.

Eliminating the Advertising Deduction Would Have Drastic Economic Consequences: Past tax reform proposals have called for limiting or eliminating the advertising deduction as a "pay-for" in tax reform. However, any revenue raised in this way would be dwarfed by the negative impacts to the economy.

In total, advertising directly or indirectly supports almost 22 million jobs and $36.7 trillion in total economic output. Every dollar of advertising spending generates $22 of economic activity. Advertising associated with local radio and television is alone projected to contribute more than $1 trillion in economic output and 1.38 million jobs.

Preserving the Deductibility of Advertising is Consistent With the Principles of the "Better Way" Tax Reform Blueprint: One of the most pro-growth changes in the House Republican blueprint is the creation of a "cash-flow" business tax that allows businesses to immediately deduct the costs associated with necessary expenses like the purchase of tangible and intangible assets.

This gives business owners a zero percent rate on dollars spent when they invest in their business, which in turn drives stronger growth, and helps create more jobs and higher wages. In fact, implementation of immediate full business expensing would lead to an
estimated long-term GDP growth of 5.4 percent and create more than one million jobs, according to the Tax Foundation.

Implementing full business expensing is a vital step toward creating a pro-growth tax code. At the same time, taking the existing treatment of advertising costs in the other direction by forcing it to be depreciated over multiple years makes no economic sense and undermines both the economic gains and the rationale for moving to full business expensing.

As lawmakers move forward with passing tax reform in 2017, they should reject any proposal that removes the ability of businesses to deduct advertising costs as a necessary business expense. Restricting this deduction would threaten the economic gains made from pro-growth tax reform and undermines the rationale of moving to full business expensing for other expenses.

Onward,

[Signature]

Grover G. Norquist
President, Americans for Tax Reform